

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-02 H-02 PA-02 PRS-01 USIA-15 /099 W

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P R 090959Z DEC 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 7380

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

INFO CINCPAC

UNCLAS SEOUL 8194

HONG KONG FOR REGFINATT CINCPAC FOR POLAD FOR AMBASSADOR  
SNEIDER

E.O. 11652: N/A

TAGS: EGEN, EFIN, KS

SUBJ: GOVERNMENT ANNOUNCES DEVALUATION AND ANTI-RECESSION  
MEASURES

SUMMARY: ON DECEMBER 7 ROKG ANNOUNCED A 21 PERCENT INCREASE  
IN THE WON/DOLLAR EXCHANGE RATE, SEVERAL LARGE PRICE INCREASES  
AND NUMEROUS MEASURES TO COMBAT GROWING RECESSION. END  
SUMMARY

1. EXCHANGE RATE: BANK OF KOREA BASIC (AVERAGE) RATE WAS  
INCREASED 21.3 PERCENT FROM 399 TO 484, FOR FIRST CHANGE  
SINCE JUNE 1972. VALUE OF WON IN DOLLARS DEPRECIATED 17.56  
PERCENT. INITIAL DOLLAR SELLING RATE SET AT 485 AND CAN FLOAT  
ONE PERCENT UP AND DOWN. FOR IMF BOOKKEEPING PURPOSES  
OFFICIAL RATE RAISED TO 480. DEPUTY PRIME MINISTER NAM, DUCK  
WOO ESTIMATED DEVALUATION WOULD SAVE \$200 MILLION IN IMPORTS  
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AND YIELD \$200 MILLION NET EXPORT GAIN.

2. TRADE MEASURES: EXISTING EXPORT INCENTIVES GENERALLY MAINTAINED. TO ENCOURAGE DOMESTIC PRODUCTION PREFERENTIAL INTEREST RATE ON IMPORTS OF RAW MATERIALS FOR EXPORT PRODUCTION RAISED FROM 9 TO 12 PERCENT AND IMPORT DEPOSIT RATE FOR SUCH MATERIALS RAISED FROM 5 TO 15 PERCENT. ALL IMPORT DEPOSITS WILL NOW BE MADE ON BASIS FOB COST PLUS 10 PERCENT RATHER THAN MIXED CIF-FOB BASIS. (WHILE THIS WILL HELP U.S. EXPORTS SLIGHTLY RELATIVE TO JAPAN, LONGER DELIVERY TIME FROM U.S. WILL STILL MEAN HIGHER INTEREST COSTS.) CREDITS ON IMPORTS FOR EXPORT NOW LIMITED TO 420 WON PER DOLLAR OF VALUE, OR PREVIOUS 87 PERCENT LEVEL, DOWN FROM RECENT 95 PERCENT OR 380 WON RATE. TWO MINOR TRADE LIBERALIZATION MEASURES ARE SCHEDULED FOR APRIL 1: (1) SHIFT TO NORMAL DEPOSIT AND REFUND (DRAWBACK) SYSTEM ON REFUNDABLE DUTIES ON IMPORTS FOR EXPORT, FROM PRESENT EXEMPTION SUBJECT TO VERIFICATION SYSTEM; AND (2) GRADUAL REDUCTION TO AVERAGE 20 PERCENT IN DUTIES ON CAPITAL EQUIPMENT FOR EXPORT PRODUCTION, TO WHICH ARIOUS EXEMPTIONS NOW APPLY.

3. PRICE INCREASES: TO ADJUST FOR PREVIOUS COST INCREASES PLUS CURRENT DEVALUATION THREE LARGE PRICE INCREASES AUTHORIZED: AVERAGE OF 31 PERCENT FOR PETROLEUM PRODUCTS, 39 PERCENT FOR RAILROAD FREIGHT AND 42 PERCENT FOR ELECTRICITY RATES. RATE CHANGES SKEWED IN FAVOR SMALL CONSUMERS, AND OIL AND ELECTRICITY TAXES REDUCED FOR 1975. WHILE OTHER PRICE INCREASES INEVITABLE, GOVERNMENT WILL TEMPORARILY CONTROL PRICES OF 58 KEY PRODUCTS. TOTAL PRICE EFFECT OF DEVALUATION ALONE ESTIMATED AT 10-11 PERCENT. WHOLESALE PRICE INDEX ROSE 37 PERCENT THROUGH NOVEMBER AND COULD REACH 50 PERCENT BY END DECEMBER.

4. NEW FUNDS: TO HELP IMPORTERS REPAY ADDED COSTS OF FOREIGN CREDITS 51 BILLION WON WILL BE LENT AT REGULAR 15.5 PERCENT RATE ON TWO-YEAR TEM. TO FIGHT GROWING RECESSION TWO NEW BANK-FINANCED SPECIAL FUNDS OF 50 BILLION WON EACH ESTABLISHED: ONE FOR MAJOR INDUSTRY DEVELOPMENT AND ONE FOR SMALL AND MEDIUM INDUSTRIES. BOTH WILL LEND AT 12 PERCENT RATE, WITH MAJOR INDUSTRY LOANS AT EIGHT YEAR TERM WITH THREE YEAR GRACE. IN ADDITION GOVERNMENT WILL INCREASE EXPENDITURES GREATLY IN FIRST HALF 1975 TO FIGHT UNEMPLOYMENT AND HELP HARD-HIT BUSINESSES.

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1975 BUDGET JUST APPROVED PROVIDES 40 BILLION WON IN SPECIAL UNEMPLOYMENT AND PUBLIC WORKS FUNDS PLUS 30 BILLION IN BUSINESS LAND PURCHASE FUND (TO HELP LIQUIDITY) PLUS 30 BILLION FOR PURCHASE OF EXCESS BUSINESS INVENTORIES. GOVERNMENT HAS ALREADY SWITCHED TO AGGRESSIVE DEFICIT SPENDING AND MOST OF THESE FUNDS WIL BE SPENT IN FIRST HALF WHEN BUDGET REVENUES EXPECTED TO DECLINE.

5. MONETARY MEASURES: TO LIMIT STIMULATIVE AND LIQUIDITY EFFECTS OF FISCAL DEFICIT, MONETARY POLICY WAS TIGHTENED SOMEWHAT. WHILE GENERAL LENDING RATE MAINTAINED AT 15.5 PERCENT, LENDING RATES ON EXISTING SPECIAL INVESTMENT FUNDS RAISED FROM 8-10 TO UNIFORM 12 PERCENT. SAVINGS DEPOSIT RATES ON NEW ACCOUNTS RAISED FROM 12-15 TO 15-18 PERCENT THROUGH JUNE 30. ON JANUARY 1 BANK RESERVE REQUIREMENTS WILL BE RAISED TWO PERCENTAGE POINTS, E.G., FROM 19 TO 21 PERCENT ON DEMAND DEPOSITS, WHICH WILL FREEZE ESTIMATED 38 BILLION WON IN BANKS.

6. COMMENTS WILL FOLLOW.  
ERICSON

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEPRESSIONS, DEVALUATIONS, PRICES, PROGRAMS (PROJECTS), FOREIGN EXCHANGE RATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 09 DEC 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974SEOUL08194  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740356-0559  
**From:** SEOUL  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19741250/aaaabqla.tel  
**Line Count:** 128  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 JUN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 JUN 2002 by colstocv>; APPROVED <05 FEB 2003 by MorefiRH>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOVERNMENT ANNOUNCES DEVALUATION AND ANTI-RECESSION MEASURES  
**TAGS:** EGEN, EFIN, KS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005